Climate Policy and the Economy

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Discussion by Felix Kübler
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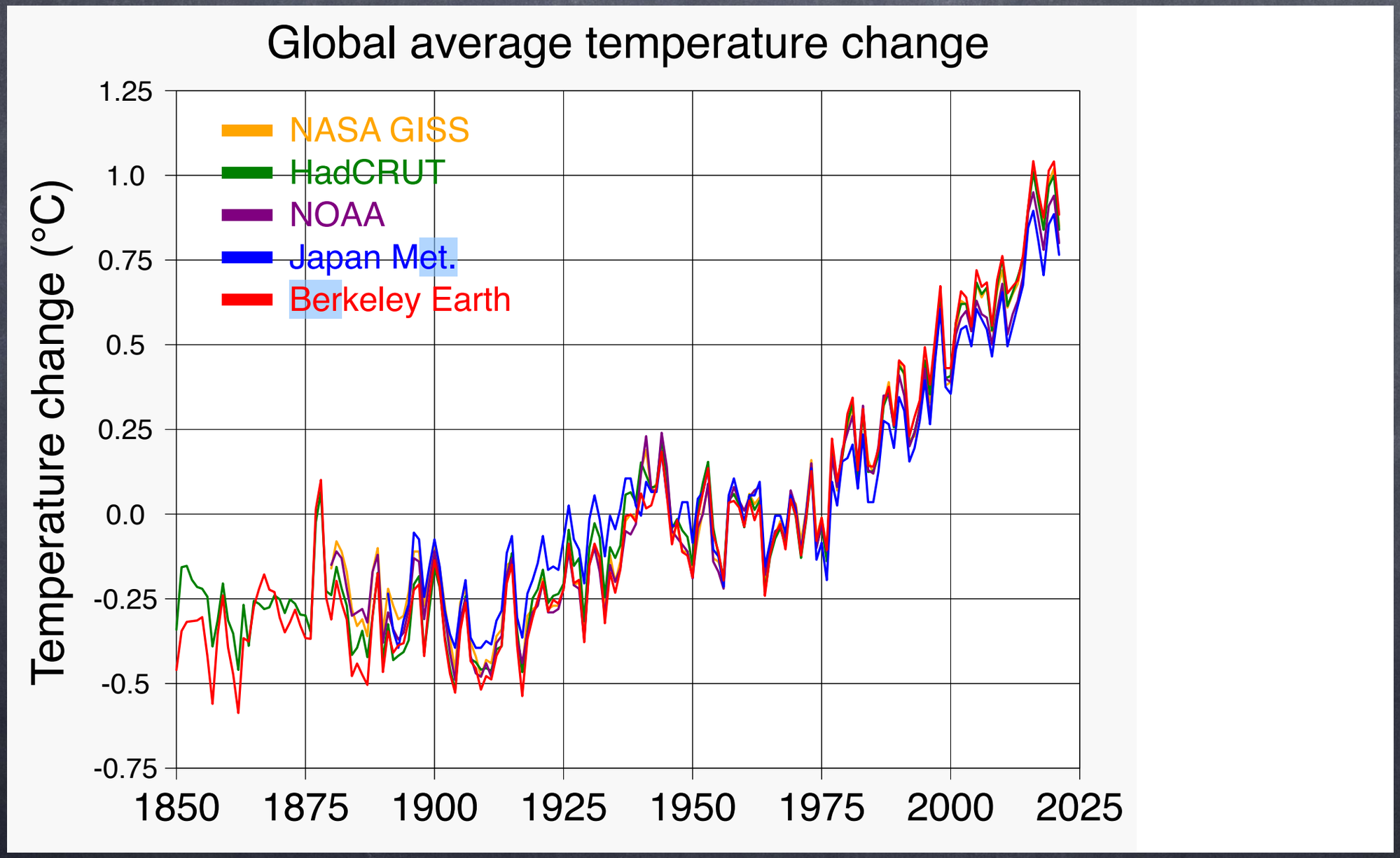
The Future of Macroeconomic Policy
Norway 2023

It's warming and it's us



And it's bad...

What can we do?

- Carbon Pricing
- Bans and Rules
- R&D: Manhattan project?

Economists love carbon taxes

ORIGINAL CO-SIGNATORIES INCLUDE:

28 Nobel Laureate Economists

4 Former Chairs of the Federal Reserve

15 Former Chairs of the Council of Economic Advisers

SIGN THE STATEMENT

ECONOMISTS' STATEMENT ON CARBON DIVIDENDS

Global climate change is a serious problem calling for immediate national action. Guided by sound economic principles, we are united in the following policy recommendations.

I. A carbon tax offers the most cost-effective lever to reduce carbon emissions at the scale and speed that is necessary. By correcting a well-known market failure, a carbon tax will send a powerful price signal that harnesses the invisible hand of the marketplace to steer economic actors towards a low-carbon future.

2 Carbon Theorems

1. Climate Change is an externality and Pareto efficiency can be restored via carbon pricing
2. (Anderson and Duanmo (2023)): Given any emissions there are prices that support them.

Remarks

- Just like the standard welfare theorems, these are benchmarks, nobody believes them.
- Are Pareto-improvements possible?
- How much do details matter?

This paper

- Look at effects of two carbon pricing schemes in the EU
  - ETS
  - Carbon Taxes in various EU states

Carbon prices

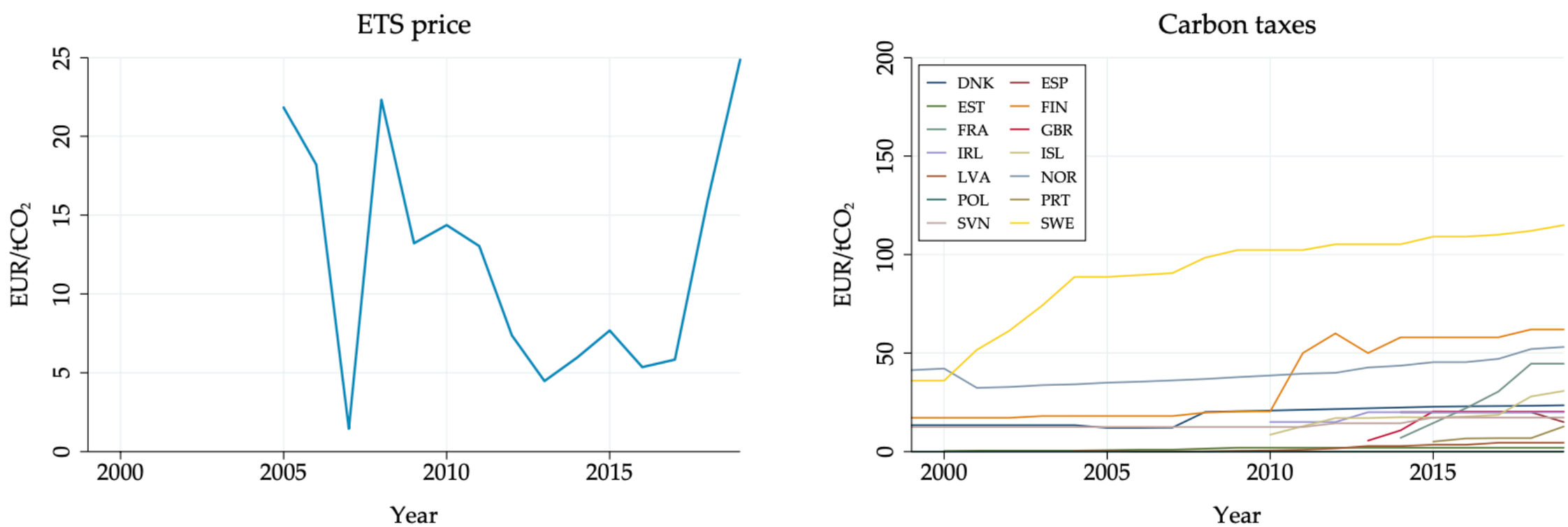
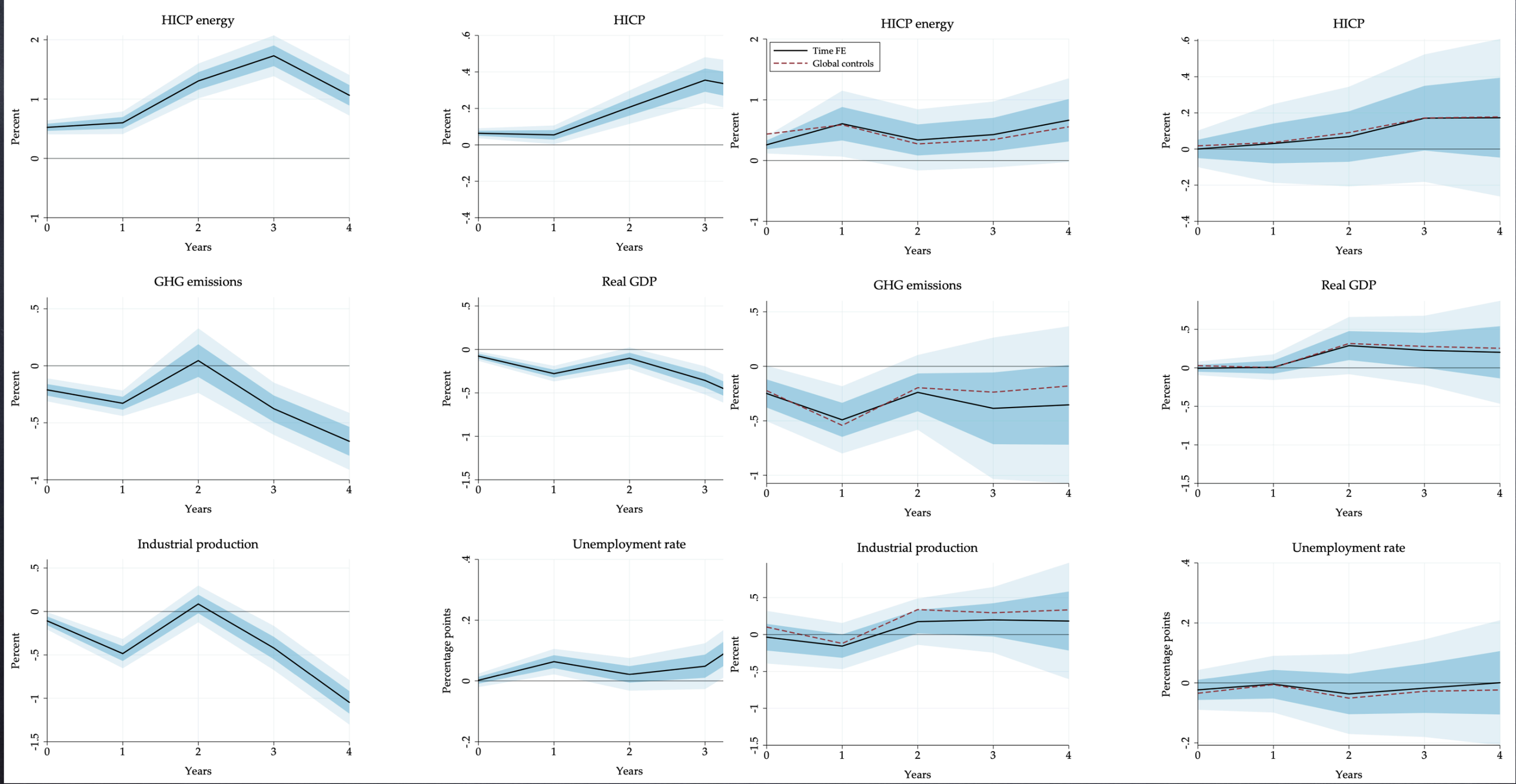


Figure 2: Carbon Prices in Europe

2 Methods

- High Frequency Identification (Känzig (2021,23))
- Control Based Identification (Metcalf and Stock (2023))

ETS vs Taxes?

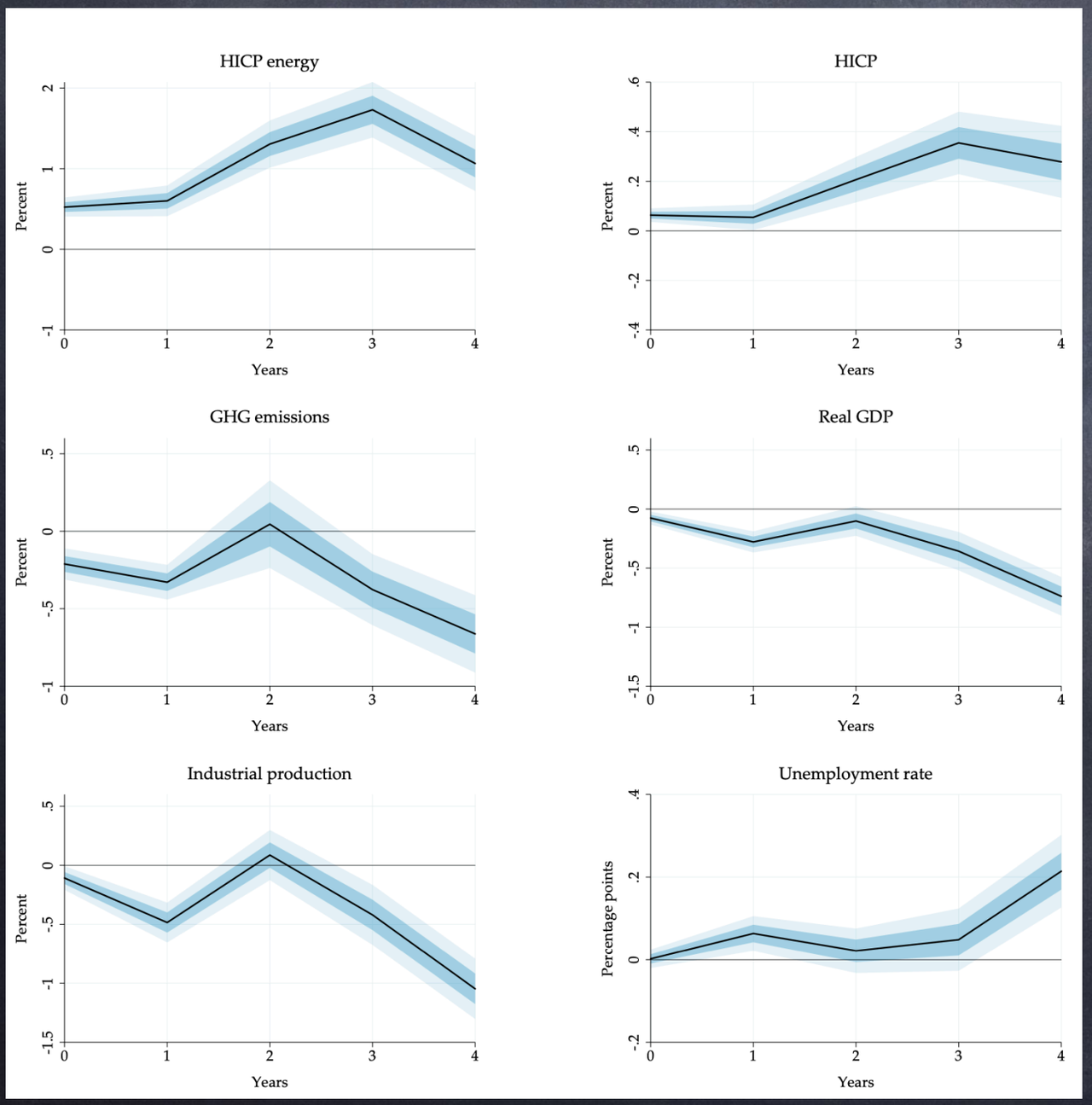
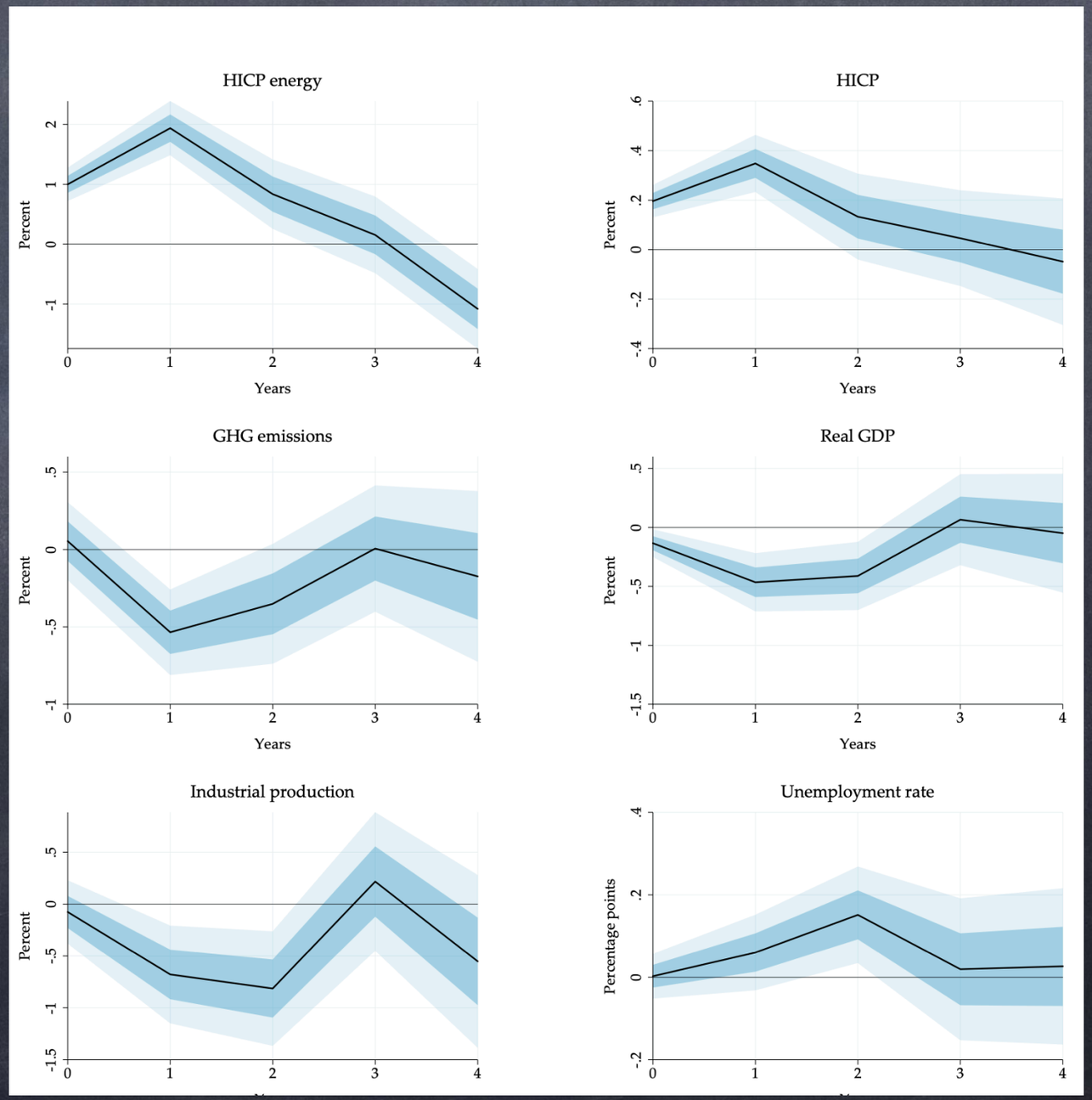

HICP energy
HICP
HICP energy
HICP
Time FE
Global controls
GHG emissions
Real GDP
GHG emissions
Real GDP
Industrial production
Unemployment rate
Industrial production
Unemployment rate
Percent
Percentage points
Years

Possible Stories

- Use of revenue
- Pass-through
- Leakage
- Monetary Policy

Comments

- Could levels explain part of the differences?
- Standard errors and difference between the two methods

Why stop 2019?

Different methods